

AUDITED FINANCIAL STATEMENTS

WMTJ-TV, Channel 40
(A Public Telecommunications Division of
Sistema Universitario Ana G. Méndez, Incorporado)
As of and For the Years Ended July 31, 2017 and 2016
With Report of Independent Auditors

Ernst & Young LLP



WMTJ-TV, Channel 40
(A Public Telecommunications Division of
Sistema Universitario Ana G. Méndez, Incorporado)

Audited Financial Statements

As of and For the Years Ended July 31, 2017 and 2016

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Report of Independent Auditors

The Board of Directors of
Sistema Universitario Ana G. Méndez, Incorporado

We have audited the accompanying financial statements of WMTJ-TV, Channel 40 (the “Channel”) (a public telecommunications division of Sistema Universitario Ana G. Méndez, Incorporado) (the “Institution”), which comprise the statements of financial position as of July 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WMTJ-TV, Channel 40 (a public telecommunications division of Sistema Universitario Ana G. Méndez, Incorporado) as of July 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

February 13, 2018

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original of
this report.

WMTJ-TV, Channel 40
(A Public Telecommunications Division of
Sistema Universitario Ana G. Méndez, Incorporado)

Statements of Financial Position

	July 31	
	2017	2016
Assets		
Cash	\$ 200	\$ 200
Receivables:		
Trade, net of allowance for doubtful accounts of \$21 in 2017 and 2016	74,668	240,655
Grants, net of allowance for doubtful accounts of \$0 and \$8,083 in 2017 and 2016, respectively	120,483	175,851
	195,351	416,706
Prepaid expenses	113,789	72,406
Cost incurred for programs not yet broadcasted	4,373	15,443
Property and equipment, net	2,261,838	2,987,420
Total assets	\$ 2,575,351	\$ 3,491,975
 Liabilities and division account		
Liabilities:		
Contracts payable	\$ 30,785	\$ 31,074
Accounts payable and other liabilities	889,565	1,369,834
Obligation under capital leases	66,812	61,546
Due to Sistema Universitario Ana G. Méndez, Incorporado	969,800	1,028,400
	1,956,962	2,490,854
Division account - unrestricted net assets	618,389	1,001,121
Total liabilities and division account	\$ 2,575,351	\$ 3,491,975

See accompanying notes.

WMTJ-TV, Channel 40
(A Public Telecommunications Division of
Sistema Universitario Ana G. Méndez, Incorporado)

Statements of Activities

	Year Ended July 31	
	2017	2016
Revenues and other support:		
General appropriation from Sistema Universitario Ana G. Méndez, Incorporado	\$ 2,525,456	\$ 3,049,638
Indirect administrative support	1,500,005	1,861,316
Federal and state grants and contracts	1,857,936	1,755,744
Telecasting, production and other income	1,621,961	2,230,274
Total revenues and other support	7,505,358	8,896,972
Expenses:		
Program services:		
Programming and production	2,042,538	2,157,120
Broadcasting	1,030,354	1,053,506
Total program services	3,072,892	3,210,626
Supporting services:		
Management and general expenses, including depreciation and amortization of \$814,737 and \$910,518 in 2017 and 2016, respectively, and interest expense of \$53,257 and \$56,977 in 2017 and 2016, respectively	4,412,910	5,863,960
Instruction	792,094	686,988
Total supporting services	5,205,004	6,550,948
Total expenses	8,277,896	9,761,574
Change in division account - unrestricted	(772,538)	(864,602)
Division account - unrestricted net assets at beginning of year	1,001,121	2,327,941
Net transfers from (to) Sistema Universitario Ana G. Méndez, Incorporado	389,806	(462,218)
	1,390,927	1,865,723
Division account - unrestricted net assets at end of year	\$ 618,389	\$ 1,001,121

See accompanying notes.

WMTJ-TV, Channel 40
(A Public Telecommunications Division of
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Statements of Cash Flows

	Year Ended July 31	
	2017	2016
Operating activities		
Change in division account - unrestricted	\$ (772,538)	\$ (864,602)
Adjustments to reconcile change in division account - unrestricted to net cash provided by operating activities:		
Depreciation and amortization	814,737	910,518
Bad debt expense	60,472	18,376
Changes in operating assets and liabilities:		
Trade receivable	105,515	(101,684)
Grants receivable	55,368	785,270
Prepaid expenses	(41,383)	(1,078)
Cost incurred for programs not yet broadcasted	11,070	(11,278)
Contracts payable	(289)	(52)
Accounts payable and other liabilities	(480,269)	(104,702)
Due to Sistema Universitario Ana G. Méndez, Incorporado	(76,543)	(68,921)
Net transfers (to) from Sistema Universitario Ana G. Méndez, Incorporado	389,806	(462,218)
Net cash provided by operating activities	65,946	99,629
Investing activities		
Purchase of property and equipment	(65,946)	(99,629)
Cash at beginning of year	200	200
Cash at end of year	\$ 200	\$ 200
Disclosure of cash flow information		
Property, plant and equipment acquired through capital leases	\$ 23,209	\$ 44,014
Interest paid	\$ 58,600	\$ 55,600

See accompanying notes.

WMTJ-TV, Channel 40
(A Public Telecommunications Division of
Sistema Universitario Ana G. Méndez, Incorporado)

Notes to Financial Statements

July 31, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies

Organization

WMTJ-TV, Channel 40 (the “Channel”) is a noncommercial public television station operating from Fajardo, Puerto Rico, including its retransmitting station WQTO-Channel 26 in Ponce. The Channel is a public telecommunications division of Sistema Universitario Ana G. Méndez, Incorporado (“SUAGM” or the “Institution”), a private, nonprofit, educational institution incorporated under the laws of the Commonwealth of Puerto Rico and licensed by the Federal Communications Commission.

The accompanying financial statements present the assets and liabilities, and changes in division account - unrestricted net assets of only that portion of the Institution that is attributable to the transactions of the Channel. These financial statements have been prepared from the separate records maintained by the Channel and may not necessarily be indicative of the conditions that would have existed or the changes in net assets if the Channel had operated as an unaffiliated entity. Portions of certain revenues and expenses represent allocations made from Institution items applicable to the Channel as a whole. SUAGM performs all cash management functions on behalf of the Channel. Accordingly, all payments and collections are handled by SUAGM.

The summary of significant accounting policies followed by the Channel is set forth below:

Receivables and Allowance for Doubtful Accounts

Receivables are reported at the estimated net realizable amount. An allowance for doubtful accounts is provided, if necessary, based upon management’s judgment including factors such as prior collection history and nature of accounts receivable.

Basis of Presentation

Net assets, revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the division account of the Channel and changes therein are classified as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

WMTJ-TV, Channel 40
(A Public Telecommunications Division of
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Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Channel and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by the Channel. Generally, the donors of these assets permit the Channel to use all or part of the income earned on related investments for general or specific purposes.

Revenues from sources other than contributions are reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate category of net assets, except that contributions which impose restrictions that are met in the same fiscal year they are received are included in unrestricted revenue. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions recognized on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

The Channel does not have any temporarily or permanently restricted net assets.

Appropriations from Sistema Universitario Ana G. Méndez, Incorporado – The general appropriation of the Institution to the operation of the Channel represents the amount required to pay for certain expenses incurred and not supported by the revenue generated by the Channel and the amount required for the acquisition of property and equipment.

United States Government Grants and Contracts Revenue – Revenue from United States government grants and contracts is recognized upon incurring allowable expenditures in accordance with the grant agreements.

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Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Property and Equipment – Property and equipment is stated at cost at the date of acquisition or fair value at date of donation in the case of gifts. Depreciation and amortization are provided using the straight-line method over the estimated useful life of the respective assets, as follows:

	<u>Useful Life</u>
Improvements	15 to 50 years
Antenna, transmitter and other broadcasting equipment	10 to 50 years
Software	7 years
Equipment	5 years
Furniture and fixtures	5 years
Vehicles	5 years

Equipment held under capital leases is amortized over the useful life of the asset or the lease term, whichever is shorter. All construction in progress is carried in a temporary account until the construction is completed; at which time a transfer is made to the appropriate property, plant or- equipment account.

Cost Incurred for Programs not Yet Broadcasted – Costs associated with license agreements for program materials not yet broadcasted are deferred and presented at amortized cost. As the programs are broadcasted, the costs incurred are charged as expenses using the straight-line method based on the estimated number of showings.

Indirect Administrative Support – A portion of the Institution’s general overhead costs relates to and benefits the Channel. Such items include administration, utilities, maintenance and repairs. The costs of these services have been allocated to the Channel and are reported under supporting services management and general expenses in the accompanying statements of activities.

WMTJ-TV, Channel 40
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Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Use of Estimates – Management of the Institution has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

Liquidity – Assets are presented in the accompanying statements of financial position according to their nearness of conversion to cash. Liabilities are presented according to the nearness of their maturity and resulting use of cash.

Deferred Revenues

The Channel has deferred revenues of approximately \$47,000 and \$244,000 as of July 31, 2017 and 2016, respectively. Deferred revenues consist of cash received in advance on contracts the Institution has on behalf of the Channel with third parties, mainly related to the lease of excess broadband capacity.

Income Taxes

The Institution, as a nonprofit organization, is exempt from the payment of income taxes under U.S. Internal Revenue Code Section 501(c)(3) and the Puerto Rico Internal Revenue Code Section 1101.01(a)(2).

The Institution is also exempt from the payment of taxes on property devoted to education.

Advertising Expense

The Channel expenses the costs of all advertising campaigns and promotions as they are incurred. Advertising expense amounted to \$290,834 and \$967,806 in 2017 and 2016, respectively.

WMTJ-TV, Channel 40
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Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Subsequent Events

The Channel evaluates subsequent events and the evidence they provide about conditions existing at the date of the statements of financial position as well as conditions that arose after the statements of financial position date, but before the financial statements are issued. The effect of conditions that existed at the date of the statements of financial position date is recognized in the financial statements. Events and conditions arising after the statements of financial position date, but before the financial statements are issued, are evaluated to determine if disclosure is required to keep the financial statements from being misleading. To the extent such events and conditions exist, disclosures are made regarding the nature of events and the estimated financial effects for those events and conditions. For purposes of preparing the accompanying financial statements and the following notes to these financial statements, the Channel evaluates subsequent events through the date the financial statements are available to be issued.

2. Property and Equipment, net

Property and equipment at July 31, 2017 and 2016, are summarized as

	2017	2016
Land	\$ 298,404	\$ 298,404
Antenna, transmitter and other broadcasting equipment	12,410,753	12,410,753
Furniture and fixtures	430,503	430,503
Vehicles	246,200	237,842
Software	31,924	31,924
Equipment	3,197,101	3,138,239
Improvements	3,258,767	3,258,767
Construction in progress	11,575	6,240
Total	19,885,227	19,812,672
Less accumulated depreciation and amortization	17,623,389	16,825,252
Property and equipment, net	\$ 2,261,838	\$ 2,987,420

WMTJ-TV, Channel 40
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Notes to Financial Statements (continued)

3. Due to Sistema Universitario Ana G. Méndez, Incorporado

Due to Sistema Universitario Ana G. Méndez, Incorporado at July 31, 2017 and 2016, represents an allocation of amounts borrowed by the Institution and used for the purchase of equipment for the Channel's ITF Tower project. Outstanding balances are amortized once the related payments of the long-term debt are made by the Institution. Interest charged in 2017 and 2016, amounted to approximately \$50,000 and \$54,000, respectively.

On June 27, 2012, the Institution entered into a loan agreement with AFICA under which AFICA issued \$78,380,000 in Higher Education Revenue Bonds ("AFICA 2012"). The net proceeds from these loans have been and are being used to: (a) provide financing for the construction, improvement and equipping of certain educational facilities owned by the Institution; (b) refund all of AFICA 1998 bonds, of which \$15,100,000 were outstanding at the refund date, and all of AFICA 1999 bonds, of which \$31,620,000 were outstanding at the refund date; (c) fund a deposit to AFICA 2012 Reserve Account in satisfaction of the Reserve Requirement; (d) pay capitalized interest on a portion of AFICA 2012 for a period of 24 months; and (e) pay certain expenses of the offering of the bonds.

Allocated debt from SUAGM is as follows:

	July 31	
	2017	2016
Higher Education Revenue Bonds	<u>\$969,800</u>	<u>\$1,028,400</u>

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Notes to Financial Statements (continued)

3. Due to Sistema Universitario Ana G. Méndez, Incorporado (continued)

Aggregate maturities on the allocated debt from SUAGM is summarized below:

Year Ending July 31,	Amount
2018	\$ 61,200
2019	64,400
2020	68,000
2021	70,400
2022	73,800
Thereafter	632,000
Total	\$ 969,800

4. Leases

The Channel has various operating leases, for certain properties and facilities, some of which include escalation clauses. For the years ended July 31, 2017 and 2016, rent expense amounted to approximately \$210,000 and \$192,000, respectively. At July 31, 2017, the future minimum lease payments, under no cancelable operating leases related to certain properties and facilities, are as follows:

2018	\$ 75,020
2019	76,581
2020	75,221
2021	43,800
2022 and thereafter	43,800
Total minimum lease payments	\$ 314,422

The Institution is obligated under capital leases for vehicle that expire during the next five years.

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Notes to Financial Statements (continued)

4. Leases (continued)

At July 31, 2017 and 2016, the gross amount of vehicle and the related accumulated amortization recorded under capital leases and included in property, plant and equipment in the accompanying consolidated statements of financial position is as follows:

	2017	2016
Vehicle	\$ 103,446	\$ 80,237
Less accumulated amortization	38,552	19,410
Vehicle, net	\$ 64,894	\$ 60,827

Amortization of vehicle under capital leases and interest expense are included in accompanying consolidated statements of activities.

Future minimum capital lease payments as of July 31, 2017, are as follow:

2018	\$	23,335
2019		23,335
2020		17,110
2021		7,634
2022		5,165
Total minimum lease payments		76,579
Less amount representing interest (at rates 5.49%)		9,767
Net minimum capital lease payments	\$	66,812

WMTJ-TV, Channel 40
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Notes to Financial Statements (continued)

5. Federal and State Grants and Contracts

In 2017 and 2016, the Channel received grants from the Corporation for Public Broadcasting amounting \$1,183,350 and \$1,237,732, respectively. These grants are to support the operations of the Channel, to finance the production of programs, and to support other telecommunication activities. These grants are included in federal and state grants and contracts under revenues and other support in the accompanying statements of activities. Certain guidelines must be satisfied in connection with the application for and use of the grants to maintain eligibility and compliance requirements. These grants are subject to audits. Such audits could result in claims against the resources of the Institution. No provision has been made for any liability, which may arise from such audits since amounts, if any, cannot be determined at this date.

6. Employee Benefit Plans

The Channel employees are participants of the Institution's contributory defined benefit pension plan and defined contribution savings and investment plan. Pension cost allocated to the Channel during the years ended July 31, 2017 and 2016, amounted \$(61,019) and \$17,088, respectively, and is included in management and general expenses in the accompanying statements of activities.

7. Subsequent Events

On September 20, 2017, Hurricane Maria made landfall in Puerto Rico as a Category 5 hurricane. The storm surge and high winds caused widespread damage to the overall island, classifying it as a federal disaster zone. The Channel, along with the Institution, sustained losses as a result of the damages to its property and business interruptions. The Institution expects to recoup most of the costs associated with repair or replacement of assets damaged by the storm over the next several months. As of the date of these financial statements the Institution is in the process of assessing damages in order to proceed with corresponding claims.

In connection with the preparation of the financial statements and in accordance with ASC 855, *Subsequent Events*, management has evaluated and reviewed the affairs of the Channel for subsequent events that would impact the financial statements for the years ended July 31, 2017 and 2016, through February 13, 2018, the date the financial statements were issued. Management is not aware of any subsequent events that could significantly impact the financial statements.

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